



## **California Public Employees' Retirement System**

### **2008 Biennial Salary Survey for Senior Executive and Investment Management Positions**

**Prepared for the  
Performance and Compensation Committee of the  
Board of Administration**

**May 13, 2008**

## 2008 BIENNIAL SALARY SURVEY FOR SENIOR EXECUTIVE AND INVESTMENT MANAGEMENT POSITIONS

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## I. Survey Methodology

As outlined in the agenda item, current policy language directing survey sources places an emphasis on private sector data; however, industry survey information indicates that global (U.S. and non U.S.) public sector salaries have increased to competitive levels. As a result, Watson Wyatt Worldwide was asked to provide survey market analysis data in two ways as follows:

	CURRENT METHODOLOGY	ALTERNATIVE METHODOLOGY
<b>Survey Sources</b>	<ul style="list-style-type: none"> <li>Private sector data from insurance and banking industry for Chief Actuary and Investment positions</li> <li>U.S. public pension fund data for CEO</li> </ul>	<ul style="list-style-type: none"> <li>Private sector data from large financial services (insurance and banking) <b>and</b> global (U.S. and non U.S.) public sector data from organizations with &gt; \$75 billion in assets</li> <li>Applied to all positions</li> </ul>
<b>Matching &amp; Weighting</b>	<ul style="list-style-type: none"> <li>Individual matching and weighting varies by position in accordance with existing policy language (Attachment 2)</li> <li><b>CEO:</b> median to 75<sup>th</sup> percentile</li> <li><b>Chief Actuary:</b> 25<sup>th</sup> percentile to median</li> <li><b>Investment Managers:</b> median of large banking and insurance private sector</li> </ul>	<ul style="list-style-type: none"> <li>50% on median of large financial services (banking and insurance) private sector and 50% on 75<sup>th</sup> percentile of global (U.S. and non U.S.) public sector</li> <li>If only one sector is available, 100% on that sector</li> <li>If no quality matches are available, adjustments are based on internal relationships</li> <li>Applied to all positions</li> </ul>
<b>Median of Data</b>	<ul style="list-style-type: none"> <li>Used as midpoint of range</li> </ul>	<ul style="list-style-type: none"> <li>Used as midpoint of range</li> </ul>
<b>Range Widths</b>	<ul style="list-style-type: none"> <li>Range widths vary by position from 37% to 50%</li> </ul>	<ul style="list-style-type: none"> <li>Range widths of 50% applied to all positions</li> </ul>

## II. Survey Data Sources

Watson Wyatt gathered survey data from the following sources:

CalPERS Custom Survey of global public pension and endowment funds – Watson Wyatt obtained information directly or from publicly available sources for public pension funds and endowments including:

Organization	Asset Size
Los Angeles Department of Water and Power (LADWP)	\$4,000,000,000
San Bernardino County Employee Retirement Association (SBCERA)	\$6,200,000,000
J Paul Getty Trust	\$6,400,000,000
Missouri State Employees Retirement System (MOSERS)	\$8,000,000,000
Los Angeles City Employees (LACERS)	\$11,800,000,000
San Francisco City and County (SFGOV)	\$14,497,000,000
Los Angeles Fire and Police	\$16,600,000,000
Tennessee Consolidated Retirement Fund	\$33,000,000,000
Los Angeles County Employees (LACERA)	\$35,200,000,000
Colorado Public Employees Retirement Association (PERA)	\$42,000,000,000
Ontario Municipal Employees Retirement System (OMERS) (Intl)	\$50,195,519,360
Virginia Commonwealth Retirement System (VRS)	\$58,000,000,000
University of California	\$71,667,096,667
North Carolina State Treasurer	\$75,000,000,000
Hermes Pension Management Ltd.	\$77,665,875,000
Washington State Investment Board (WSIB)	\$83,000,000,000
State of Wisconsin Investment Board (SWIB)	\$87,000,000,000
British Columbia Investment Management Corporation (BCIMC) (Intl)	\$88,065,950,000
New York State Teachers' Retirement System (NYSTERS)	\$103,300,000,000
Texas Teachers Retirement System	\$111,000,000,000
Canadian Pension Plan Investment Board	\$125,675,291,000
California State Teachers' Retirement System (CalSTRS)	\$166,500,000,000
California Public Employees Retirement System (CalPERS)	\$246,400,000,000
ABP Dutch Fund	\$318,592,890,000

Mercer - A survey of financial services companies. The asset size above \$25 billion includes many insurance companies and banks.

Watson Wyatt Data Services (WWDS) report is comprised of over 1,200 organizations grouped by industry. Comparisons were made to insurance companies and financial services companies with assets greater than \$25 billion.

### **III. Recent Salary Trends for Investment Management Positions**

The data reviewed in this analysis shows that over the last two years, base salaries grew at approximately 4% to 5% per year for investment and non-investment executive positions, with stronger growth among the higher level investment positions. However, Watson Wyatt noted that the matches varied significantly from job to job resulting in inconsistent market movement by classification. This is not necessarily reflective of actual movement in the full market.

For example, the portfolio manager positions initially appear to have decreased when comparisons were made solely to the private sector, but when the public sector is factored in we identified growth of 4.5% per year in pay levels. Non-investment executive positions have also undergone recent change that required a more comprehensive and consistent look at their market compensation.

Watson Wyatt reviewed the best available sources of public sector and private sector information and believes the proposed salaries result in a better alignment of pay with the roles and responsibilities of the executive positions. This realignment results in a one time significant movement in the range midpoints for the CEO, Chief Actuary and General Counsel. Additionally, comparisons of the combined public and private sector investment management data suggest moderate to strong increases in base salary of 7% per year.

We believe the increases to base salaries reflect current and projected conditions of the financial markets. As markets become unstable, compensation changes occur inconsistently between positions and over time. Nevertheless, base salaries for investment positions will continue to see moderate increases estimated at 4% per year.

Watson Wyatt previously reported to the Committee that many public sector organizations have implemented increases in incentive compensation awards tied to performance. We predict that significant performance-based incentive awards will become the primary component affecting increases in total cash compensation. Notably, incentive compensation awards at the CIO level have increased to an extent that CalPERS is now lagging the incentive opportunity found at even other public pension funds.

## IV. 2008 DATA BY POSITION

### Chief Executive Officer

	Current Range	Current matching & weighting	Alternative matching & weighting
		Midpoint established between median and 75 <sup>th</sup> percentile of U.S. public pension funds most comparable on assets and members where CEO is not the CIO.	Midpoint established at 75 <sup>th</sup> percentile of global (U.S. and non U.S.) public pension funds for positions that are not also CIO; comparable private sector data are not available. <sup>1</sup>
<b>Range:</b>	\$175,000 - 239,000	\$208,000 - 286,000	\$224,000 - 336,000
<b>Midpoint:</b>	\$207,000	\$247,000	\$280,000
<b>Range Width:</b>	37%	38%	50%
<b>Difference between current &amp; proposed midpoints:</b>		19%	35%

Incumbent's Current Salary by Quartile of Current Range:	Q1	Q2	Q3	Q4
	\$191,000	\$207,000	\$223,000	\$239,000
				\$239,000

### Chief Actuary

	Current Range	Current matching & weighting	Alternative matching & weighting
		Midpoint established between 25 <sup>th</sup> percentile and the median of private sector data.	Midpoint established at the median of large financial services private sector data; comparable public sector data are not available. <sup>1</sup>
<b>Range:</b>	\$191,000 - 239,000	\$218,000 - 272,000	\$206,000 - 310,000
<b>Midpoint:</b>	\$215,000	\$245,000	\$258,000
<b>Range Width:</b>	25%	25%	50%
<b>Difference between current &amp; proposed midpoints:</b>		14%	20%

Incumbent's Current Salary by Quartile of Current Range:	Q1	Q2	Q3	Q4
	\$203,000	\$215,000	\$227,000	\$239,000
				\$239,000

<sup>1</sup> Weighted 100% on available sector.

## General Counsel

	Current Range	Current matching & weighting	Alternative matching & weighting
		No existing policy provision; salary set based on internal relationships (same as CEO and Chief Actuary)	Midpoint established 50% on median of large financial services private sector and 50% on 75 <sup>th</sup> percentile of large global (U.S. and non U.S.) public sector data where available.
<b>Range:</b>	\$182,000 - 239,000	\$182,000 - 239,000	\$214,000 - 322,000
<b>Midpoint:</b>	\$211,000	\$211,000	\$268,000
<b>Range Width:</b>	31%	31%	50%
<b>Difference between current &amp; proposed midpoints:</b>		0%	27%

Incumbent's Current Salary by Quartile of Current Range:	Q1	Q2	Q3	Q4
	\$196,250	\$210,500	\$224,750	\$239,000
				\$239,000

## Chief Operating Investment Officer

	Current Range	Current matching & weighting	Alternative matching & weighting
		No existing policy provision; midpoint established at the median of the large banking and insurance private sector.	Midpoint established at the median of large financial services private sector; comparable public data are not available. <sup>1</sup>
<b>Range:</b>	\$221,000 - 309,000	\$221,000 - 309,000	\$212,000 - 318,000 <sup>2</sup>
<b>Midpoint:</b>	\$265,000	\$265,000	\$265,000
<b>Range Width:</b>	40%	40%	50%
<b>Difference between current &amp; proposed midpoints:</b>		0%	0%

Incumbent's Current Salary by Quartile of Current Range:	Q1	Q2	Q3	Q4
	\$243,000	\$265,000	\$287,000	\$309,000
	\$221,000			

<sup>1</sup> Weighted 100% on available sector.

<sup>2</sup> Wider range lowers the minimum and raises the maximum

## Chief Investment Officer

	Current Range	Current matching & weighting	Alternative matching & weighting
		Midpoint adjusted based on the same percentage as the SIOs pursuant to existing policy unless the CIO data compel otherwise	Quality matches are not available due to the size and scale of CalPERS; adjustments are based on internal relationship (same percentage increase as SIOs). <sup>3</sup>
<b>Range:</b>	\$380,000 - 571,000	\$418,000 - 627,000	\$408,000 - 612,000
<b>Midpoint on SIO movement</b>	\$476,000	\$522,000	\$510,000
<b>Range Width:</b>	50%	50%	50%
<b>Difference between current &amp; proposed midpoints:</b>		10%	7%

Incumbent's Current Salary by Quartile of Current Range:	Q1 \$427,750	Q2 \$475,500	Q3 \$573,250	Q4 \$571,000
			\$555,360	

## Senior Investment Officer

	Current Range	Current matching & weighting	Alternative matching & weighting
		Midpoint established on the median of the large banking and insurance private sector with emphasis on Equities and Fixed Income matches.	Midpoint established 50% on the median of large financial services private sector and 50% on 75 <sup>th</sup> percentile of large global (U.S. and non U.S.) public sector.
<b>Range:</b>	\$249,000 - 361,000	\$273,000 - 397,000	\$262,000 - 392,000
<b>Midpoint:</b>	\$305,000	\$335,000	\$327,000
<b>Range Width:</b>	45%	45%	50%
<b>Difference between current &amp; proposed midpoints:</b>		10%	7%

Incumbents' Current Salary by Quartile of Current Range:	Q1 \$277,000	Q2 \$305,000	Q3 \$333,000	Q4 \$361,000
<b>SIO, Alternative Investments</b>			\$323,713	
<b>SIO, Asset Allocation / Risk Mgmt.</b>			\$325,000	
<b>SIO, Fixed Income</b>				\$333,912
<b>SIO, Global Equity</b>				\$355,613
<b>SIO, Real Estate</b>			\$308,448	

<sup>3</sup> If no quality matches are available, adjustments are based on internal relationships.



## Senior Portfolio Manager

	Current Range	Current matching & weighting	Alternative matching & weighting
		Midpoint adjusted based on the same percentage as the SIOs pursuant to existing policy	Quality matches are not available due to the size and scale of CalPERS; adjustments are based on internal relationships (same percentage increase as SIOs). <sup>3</sup>
<b>Range:</b>	\$174,000 - 243,000	\$191,000 - 267,000	\$179,000 - 268,000
<b>Midpoint:</b>	\$209,000	\$229,000	\$224,000
<b>Range Width:</b>	40%	40%	50%
<b>Difference between current &amp; proposed midpoints:</b>		10%	7%

Number of Incumbents in Each Quartile of Current Range:	Q1	Q2	Q3	Q4
	\$191,250	\$208,500	\$225,750	\$243,000
<b>Senior Portfolio Managers</b>	4		5	2

## Portfolio Manager

	Current Range	Current matching & weighting	Alternative matching & weighting
		Midpoint established at median of the large banking and insurance private sector.	Midpoint established 50% on median of large financial services private sector and 50% on 75 <sup>th</sup> percentile of large global (U.S. and non U.S.) public sector.
<b>Range:</b>	\$126,000 - 164,000	\$126,000 - 164,000	\$126,000 - 190,000
<b>Midpoint:</b>	\$145,000	\$145,000	\$158,000
<b>Range Width:</b>	30%	30%	50%
<b>Difference between current &amp; proposed midpoints:</b>		0%	9%

Number of Incumbents in Each Quartile of Current Range:	Q1	Q2	Q3	Q4
	\$135,500	\$145,000	\$154,500	\$164,000
<b>Portfolio Managers</b>	5	1	5	17

<sup>3</sup> If no quality matches are available, adjustments are based on internal relationships.

## V. Base Pay Policy Considerations

Current Policy Considerations	Alternative Policy Considerations
<ul style="list-style-type: none"><li>Individual survey matching and weighting methodologies are inconsistent and difficult to administer</li></ul>	<ul style="list-style-type: none"><li>Consistent yet flexible survey matching and weighting methodology for all positions covered under the policy</li></ul>
<ul style="list-style-type: none"><li>Individual range widths are inconsistent; currently 37% to 50%</li></ul>	<ul style="list-style-type: none"><li>50% range widths for all positions built around the median of the data</li></ul>
<ul style="list-style-type: none"><li>No methodology for adding new positions (e.g., COIO, General Counsel)</li></ul>	<ul style="list-style-type: none"><li>Flexibility to apply consistent methodology to new positions</li></ul>

## VI. Staff Recommendations for Base Salary Ranges

Staff recommends the Committee adopt one of the following options:

### Alternative Option 1:

Approve proposed salary ranges established in accordance with matching and weighting language, for each position, as stated in the current policy.

Position	Proposed Salary Range	% increase at midpoint
Chief Executive Officer	\$208,000 - 286,000	19%
Chief Actuary	\$218,000 - 272,000	14%
General Counsel	\$182,000 - 239,000	0%
Chief Operating Investment Officer	\$221,000 - 309,000	0%
Chief Investment Officer	\$418,000 - 627,000	10%
Senior Investment Officer	\$273,000 - 397,000	10%
Senior Portfolio Manager	\$191,000 - 267,000	10%
Portfolio Manager	\$126,000 - 164,000	0%

## VI. Staff Recommendations for Base Salary Ranges (cont.)

### Alternative Option 2:

Adopt salary ranges, for all positions, established using a blend of private and global public sector data as follows:

- Weighted 50% on median of large financial services (banking and insurance) private sector, and 50% on 75<sup>th</sup> percentile of large global (U.S. and non U.S.) public sector (greater than \$75 billion in assets).
- If only one sector is available, 100% on that sector.
- If no quality matches are available, adjustments are based on internal relationships.
- Standard range width of 50% for all positions.

Position	Proposed Salary Range	% increase at midpoint
Chief Executive Officer	\$224,000 - 336,000	35%
Chief Actuary	\$206,000 - 310,000	20%
General Counsel	\$214,000 - 322,000	27%
Chief Operating Investment Officer	\$212,000 - 318,000	0%
Chief Investment Officer	\$408,000 - 612,000	7%
Senior Investment Officer	\$262,000 - 392,000	7%
Senior Portfolio Manager	\$179,000 - 268,000	7%
Portfolio Manager	\$126,000 - 190,000	9%

### ***For Investment Management Positions Only:***

Increases as proposed under Alternative Options 1 and 2 would be applied to the range and also applied immediately to the incumbents' base salaries, in accordance with the policy as follows:

<b><i>Individual Base Pay Adjustment to the Median of the Data (Investment Management)</i></b>	<i>The base salary rates of incumbents in investment management positions will also be adjusted by the same percentage as the range is adjusted to reach the median of the data, prior to any performance-based adjustment provided for in these Policies and Procedures. Adjustments to individual pay rates will be subject to review and approval by the Chief Investment Officer, or CEO in the case of the CIO adjustment, who will certify that performance warrants the adjustment.</i>
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However, the policy also states this provision will be periodically reviewed as follows:

<b><i>Periodic Review (Investment Management)</i></b>	<i>In administering this provision regarding the automatic increase to the median of the data, there will be a periodic review to ensure that this compensation strategy continues to be necessary for and responsive to the recruitment and retention of these senior investment staff.</i>
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## VII. Additional Policy Considerations

Staff recommends the following revisions to existing policy provisions:

1) Current Policy Provision:

<b><i>Median of Data (Investment Management)</i></b>	<i>Definition: For the purposes of this provision, for investment positions the “median of the data” shall be interpreted as being within 10% of the midpoint in the array of all specialized survey positions comparable to Senior Investment Officer (SIO) and Portfolio Manager (PM), respectively.</i>
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Recommendation: Revise the definition for median to read “*For the purposes of this provision the “median of the data” shall be interpreted as the midpoint in any array of market data. Where multiple sources of market data are used, the average of the medians will be used to describe the median of the market*”. This revision will reflect the current application of median of the data.

2) Current policy provision:

<b><i>Base Pay Range Increase to the Median of the Data (Investment Management)</i></b>	<i>When the <b>maximum</b> of the base salary range for either the SIO or PM levels is found to be below the median of the data, as defined, an initial annual increase of up to 10% in the base salary range, and a second year increase of up to 15%, shall be made in order to bring the maximum of the base salary range to within this definition of the “median of the data” prior to the next biennial salary survey.</i>  <i>The salary range for CIO and SPM positions will be adjusted under this provision by the same percentage amount as that for SIO positions.</i>
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Recommendation: Delete the provision from the policy as the median of the data is now used to establish the private sector sources midpoint of the salary range.

## VIII. Performance Award Schedule Review

In recent years, the only changes to the award schedules have been to the Chief Executive Officer and Chief Actuary in 2004 (schedules increased to 0 - 40%). Data gathered by Watson Wyatt Worldwide indicates performance award schedules in the market, even among public pension funds, have increased and CalPERS is now lagging in incentive opportunity. Mr. Rick Beal from Watson Wyatt Worldwide will be present at the meeting to further discuss industry incentive trends.

The policy includes a provision for the periodic review of the award schedules by the Performance and Compensation Committee. Staff recommends the Committee review the current award schedules for each position. Current schedules are as follows:

Position	Award Schedule
Chief Executive Officer	0 – 40%
Chief Actuary	0 – 40%
General Counsel	0 – 40%
Chief Operating Investment Officer	0 – 40%
Chief Investment Officer	0 – 75%
Senior Investment Officer	0 – 75%
Senior Portfolio Manager	0 – 75%
	0 – 60%
Portfolio Manager	0 – 75%
	0 – 60%
	0 – 45%

Each position, as outlined above, has one corresponding award schedule with the exception of the Senior Portfolio Manager and Portfolio Manager positions which have multiple award schedules. Criteria for placement in a particular award schedule for these positions are outlined in the policy as follows:

Position	Award Schedule	Criteria
Senior Portfolio Manager	0 – 75%	Newly appointed Sr. Portfolio Managers are required to complete one annual performance review cycle before being considered for this award.
	0 – 60%	Newly appointed Sr. Portfolio Managers and those not meeting the criteria for higher award schedules. <sup>4</sup>
Portfolio Manager	0 – 75%	Newly appointed Portfolio Managers are required to complete one annual performance review cycle before being considered for these awards.
	0 – 60%	
	0 – 45%	Newly appointed Portfolio Managers and those not meeting the criteria for higher award schedules. <sup>4</sup>

<sup>4</sup> In accordance with the policy, the CIO has discretion to increase award schedules up to 0 – 75% based on consideration of specific criteria outlined in the policy.

## **VIII. Performance Award Schedule Review (cont.)**

Notwithstanding any other changes the Committee may wish to consider, staff recommends elimination of the 0 – 45% award schedule for newly appointed Portfolio Managers to align their schedule with that of the Senior Portfolio Manager for recruitment and internal equity purposes.

## **IX. Amendments to Policies and Procedures**

Upon approval, proposed recommendations for all changes to the policy will be presented in a separate agenda item to the Committee at a future meeting.